



DEPARTMENT OF THE NAVY  
OFFICE OF THE ASSISTANT SECRETARY  
(FINANCIAL MANAGEMENT AND COMPTROLLER)  
1000 NAVY PENTAGON  
WASHINGTON, D.C. 20350-1000

7321

FMO

SEP 27 1999

MEMORANDUM FOR DISTRIBUTION

Subj: REVISED POLICY FOR THE RECOGNITION AND DEPRECIATION  
OF GENERAL PROPERTY, PLANT AND EQUIPMENT ASSETS

Ref: (a) ASN(FM&C) memo 7300.4 FMO-11 of 5 May 98

Encl: (1) Summary of DoD Revised Policy for the Recognition  
and Depreciation of General PP&E  
(2) DoD Revised Policy for the Recognition and  
Depreciation of General PP&E


Enclosures (1) and (2) provide the Department of Defense (DoD) revised policy for the recognition and depreciation of DoD General Property, Plant and Equipment (PP&E). This policy is based on the Statement of Federal Financial Accounting Standards (SFFAS) Number 4, "Managerial Cost Accounting Concepts and Standards for the Federal Government" and SFFAS Number 6, "Accounting for Property, Plant, and Equipment" as recommended by the Federal Accounting Standards Advisory Board and issued by the Office of Management and Budget.

Enclosure (1) summarizes the DoD policy changes addressed in enclosure (2). The enclosure (2) guidance will be included in the revision to the DoD Financial Management Regulation (DoD 7000.14-R). The Department of the Navy (DON) Commands should ensure that this revised policy is provided to their subordinate activities for implementation and coordination with the supporting DON or Defense Finance and Accounting Service (DFAS) organization responsible for the particular function being discussed. For DON owned feeder systems, DON Commands should coordinate with the applicable Central Design Agent to ensure program changes are made to property systems to implement the enclosed policy. Noncompliance with any of the revised policy must be disclosed in the annual financial statement footnotes, when applicable and full details of the reason for noncompliance described.

My points of contact are Ms. Linda Tread at (202) 685-6733 or DSN 325-6733, e-mail ([tread.linda@fmo.navy.mil](mailto:tread.linda@fmo.navy.mil)) for Navy Working Capital Fund (NWCF) and Mr. Warren Pfeiffer at (202) 685-6730 or

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DSN 325-6730, e-mail ([pfeiffer.warren@fmo.navy.mil](mailto:pfeiffer.warren@fmo.navy.mil)) for General  
Funds questions on this subject. The fax number is (202) 685-  
6700 or DSN 325-6700.



A. A. TISONE  
Director  
Office of Financial Operations

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**Summary of DoD Revised Policy for the Recognition  
and Depreciation of General PP&E**

The following summarizes the DoD policy changes addressed in enclosure (2) of this memorandum:

a. Policy Change 1 provides the DoD revised policy for depreciation which permits the use of the Mid-Year Convention Method or the Month Placed in Service Method when computing the depreciation of General PP&E assets. Consistent with the DoD implementation guidance, the Assistant Secretary of the Navy (Financial Management and Comptroller) has elected to use the Mid-Year Convention Method of depreciation for all DON non-NWCF General PP&E assets. The Month Placed in Service Method of depreciation will continue to be used for all NWCF General PP&E assets.

b. The Policy Change 2 recovery periods for computing depreciation of General PP&E has been modified from the previous recovery periods provided in reference (a). Policy Change 2 became effective for all General PP&E assets acquired from 22 October 1998 through 1 August 1999. For Defense Working Capital Fund (DWCF) activities this guidance was superceded as discussed below in paragraph d. The DoD Components shall not attempt to adjust the depreciation schedules of assets currently on-hand when depreciation was previously computed using a different recovery period.

c. Policy Change 3 addresses the DoD's depreciation policy for capitalized improvements to General PP&E. This policy has been modified and clarified to make it more consistent with the federal accounting standards. The revised policy for improvements is applicable to all General PP&E assets improved after 1 August 1999. For NWCF activities, DON has determined that this revised policy is applicable to all General PP&E assets improved on or after 1 October 2000 which is consistent with the Policy Change 4 recovery periods implementation date. The DoD Components shall not adjust the depreciation schedules of assets that have been previously improved.

d. Policy Change 4 provides the latest DoD Standard Recovery Periods Table since Policy Change 2 that is to be used in computing depreciation of General PP&E. This table has been modified from the recovery periods provided in Policy Change 2 to clarify the types of property that apply to each recovery period, to include permitting depreciation over less than 5 years. The revised DoD Standard Recovery Periods Table in Policy Change 4 is

Enclosure (1)

applicable to all General PP&E assets acquired after 1 August 1999. For DWCF activities, this policy is effective for all General PP&E assets acquired on or after 1 October 2000. The DoD Components shall not attempt to adjust the depreciation schedules of assets currently on-hand.

e. Policy Change 5 provides the policy for the recognition of General PP&E assets and the DoD preponderant use policy. It provides the first three criteria that must be met by a DoD Component when determining which DoD Component must recognize a General PP&E asset for accounting and reporting purposes.

f. Policy Change 6 adds a fourth criterion to the DoD preponderant use policy, which also must be met when determining which DoD Component must recognize a General PP&E asset. This new criterion addresses materiality as a determining factor. In order to facilitate the reporting required by paragraphs 4.b and 4.c of Policy Change 6, DON Commands in coordination with the individual Defense Agencies, must identify the General PP&E that should be reported by the Defense Agency. That information should be provided to both the applicable Defense Agency and the DFAS - Indianapolis Center. It is a joint responsibility between the Military Departments and the Defense Agencies that no duplicate reporting of General PP&E occurs. According to Policy Change 6 the DoD policy is effective 1 August 1999 and shall be used for the reporting of General PP&E in the Fiscal Year (FY) 1999 financial statements. Recognizing that this policy change will take time to permit determinations and agreements to be put in place prior to implementation, we expect full implementation for the reporting of General PP&E in the FY 2000 annual financial statements.

The DON interpretation of the DoD preponderant use policy for sponsor (customer) funded/furnished equipment meeting the DoD capitalization threshold is that those assets shall not be included in, or reported as, assets of the NWCF activities. Sponsor owned assets are not general purpose assets and NWCF activities do not have the authority to employ them as such. At the conclusion of projects, disposition of these sponsor (customer) funded/furnished assets is totally at the discretion of the sponsor. Accordingly, the ability to obtain the benefit and control access to the benefit of sponsor (customer) funded/furnished equipment resides with the sponsor (customer), not with the NWCF activity. The accepting NWCF activity shall establish such control and maintain such records as necessary and cost beneficial to preclude loss of the asset. The NWCF activity shall report annually, by 30 October, to the sponsor (customer) the status of those assets. The specific NWCF activity reporting requirements to the sponsor (customer) of the assets will be distributed by separate correspondence. That information will

allow the sponsor (customer) to furnish the information, upon request, to the appropriate office for inclusion in the annual financial statement, when required.

**DoD Revised Policy for the Recognition  
and Depreciation of General PP&E**

Enclosure (2)

**DEPARTMENT OF DEFENSE  
GENERAL PROPERTY, PLANT AND EQUIPMENT (PP&E)  
DEPRECIATION POLICY**

The following modifies the depreciation policy issued in the Under Secretary of Defense (Comptroller) memorandum, dated March 26, 1998. This policy will be incorporated into the appropriate chapters and volumes of the "DoD Financial Management Regulation" (DoD 7000.14-R).

**Policy Change 1.** The Department of Defense (DoD) policy for depreciation has been revised to permit the use of the Mid-Year Convention when computing the depreciation of General PP&E assets.

**Current Policy:** Computation of depreciation shall commence in the month following the date of receipt shown on the asset's receiving document, or the date the asset is installed and ready for use (regardless of whether it is actually used), whichever is later.

**Revised Policy:** Computation of depreciation shall be based on either:

(1) **Mid-Year Convention.** Under the Mid-Year Convention, 6 months of depreciation is computed and expensed in the first and last year of an asset's useful life, regardless of the actual month the asset was placed in, and removed from, service.

(2) **Month Placed in Service Method.** Under the Month Placed in Service method, the month following the date of receipt shown on the asset's receiving document, or the month the asset is installed and ready for use, whichever is later, is used to compute the amount of depreciation expense for the first year.

**Implementation Guidance:** The DoD Components shall be consistent in the use of the Mid-Year Convention or the Month Placed in Service Method. If a DoD Component elects to use the Mid-Year Convention, it shall be used for an entire activity (i.e., all Working Capital Fund activities or all General Fund activities). In addition, a DoD Component may elect to use either of the two depreciation methods for an entire class of General PP&E assets, regardless of activity (i.e., all real property assets could use Mid-Year Convention method and Personal Property could use Month Placed in Service method).

If a DoD Component elects to use the Mid-Year Convention, it shall be used for all new assets acquired after issuance of this policy. The DoD Components shall not attempt to adjust the depreciation schedules of assets currently on-hand. However, the Mid-Year Convention is permitted, and recommended, if a DoD Component is computing depreciation for the first time on existing General PP&E assets in order to report such depreciation on its FY 1998 Chief Financial Officer audited financial statements.

**DoD RECOVERY PERIODS FOR DEPRECIABLE  
GENERAL PP&E ASSETS**

**Policy Change 2.** The DoD standard recovery periods for computing depreciation have been modified to eliminate the 12-year recovery period. In addition, the recovery period for leasehold improvements to buildings also has been modified from "40 years" to be a recovery period that is equal to the remaining period of the applicable lease. Additionally, the recovery period for internally developed software is being modified from "10 years" to be "5 years." A table reflecting the revised DoD recovery periods for depreciation follows.

**Implementation Guidance:** The modifications to the DoD standard recovery periods are applicable to all General PP&E assets acquired after issuance of this guidance. The DoD Components shall not attempt to adjust the depreciation schedules of assets currently on-hand when depreciation was previously computed using a different recovery period. However, the revised recovery periods shall be used by the DoD Components when computing depreciation for the first time on existing General PP&E assets, and may be used to report depreciation on FY 1998 Chief Financial Officer audited financial statements.

Note: See paragraph (b) of enclosure (1) for DON guidance on implementation date.

**DoD RECOVERY PERIODS FOR DEPRECIABLE  
GENERAL PP&E ASSETS**

Description of General PP&E Assets	Recovery Period
General Purpose Vehicles (Includes Heavy Duty Trucks & Buses), ADP Systems and Hardware (Computers and Peripherals), High Tech Medical Equipment, Equipment Used in RDT&E, Radio and Television Broadcasting Equipment, Software (Commercial and Internally Developed)	5 Years
All Other Equipment and Machinery; Printing, Publishing and Duplicating Equipment; Telecommunication Equipment and Towers; Automated Warehouse Retrieval Systems	10 Years
Leasehold Improvements to Buildings	Lease Period
Vessels, Tugs, Barges and Similar Water Transportation Equipment (non-National Defense PP&E vessels/ships)  Steam (12.5K pounds per hour or more) and Electric Generation (500 Kilowatt or more) Equipment  Improvements Made or Added to Land (i.e., Fences, Roads, Bridges, Sewers, Ship and Railroad Wharves and Docks, Dry Docks) (Includes Improvements Made to Stewardship Land) (Excludes: Buildings, Hangars, Warehouses, Fuel Storage Facilities, Air Traffic Control Towers, and Other Real Property Structures)	20 Years
Buildings, Hangars, Warehouses, Fuel Storage Facilities, Air Traffic Control Towers, and Other Real Property Structures	40 Years



**DEPARTMENT OF DEFENSE  
GENERAL PROPERTY, PLANT AND EQUIPMENT (PP&E)  
POLICY ON DEPRECIATION OF IMPROVEMENTS**

Policy Change 3. The Department of Defense (DoD) accounting policy for the depreciation of capitalized improvements to General Property, Plant and Equipment (PP&E) is being revised to make it more straightforward and easier to implement. The revised policy for capitalized improvements to General PP&E is less complex and easier to program into automated property systems. In addition, the definition of a capitalized improvement has been clarified to better ensure consistency with federal accounting standards.

Current Policy. The current policy for improvements to General PP&E is contained in paragraph 58.E.7 of Volume 11B of the DoD Financial Management Regulation (DoD 7000.14-R). Improvements and upgrades that increase the capacity or operating efficiency of an existing capital asset, and for which the cost is equal to or greater than the capitalization threshold, should be capitalized even though the improvement or upgrade may not extend the useful life of the asset. The depreciation schedule of existing capital assets shall be revised to include the acquisition cost of a capitalized improvement or upgrade. Below are the criteria to be used to determine whether the useful life of the original asset should be revised.

1. If the cost of the improvement or upgrade is greater than 50 percent of the net book value (original acquisition cost less accumulated depreciation) of the existing asset, then the improvement or upgrade is analogous to the purchase or manufacture of a new asset. Accordingly, the improvement or upgrade cost shall be added to the current net book value of the existing asset and result in a new basis (recorded cost) for depreciation over the useful life (see the standard useful lives guidance in the depreciation policy issued by the Under Secretary of Defense (Comptroller) memorandum, dated March 26, 1998) of the asset starting from the month that the improvement or upgrade became operational.
2. If the cost of the improvement or upgrade is less than 50 percent of the net book value (original acquisition cost less accumulated depreciation) of the existing asset, then the cost of the improvement or upgrade is depreciated over the remaining useful life of the existing asset.

Revised Policy. Consistent with the Statement of Federal Financial Accounting Standards (SFFAS) No. 6, "Accounting for Property, Plant and Equipment," costs to improve PP&E shall be capitalized only when the improvement increases a General PP&E asset's capacity, size, efficiency, or useful life. In addition, the cost of an improvement shall be capitalized only when the cost of the improvement equals or exceeds the DoD capitalization threshold (regardless of funding source). Applicable

improvements shall be capitalized and depreciated separately from the General PP&E asset improved. The SFFAS No. 6, requires that improvements be capitalized and depreciated over the remaining useful life of the associated General PP&E. The DoD policy recognizes that improvements are made to many assets that are substantially or fully depreciated. Improvements that do not increase an asset's capacity, size, efficiency, or useful life, regardless of the cost of the improvement, shall be expensed. Policy applicable to specific types of property follows:

- a. Improvements to Real Property. Improvements to General PP&E real property (including multi-use heritage assets), that equal or exceed the DoD capitalization threshold, shall be individually capitalized within real property systems and depreciated over the applicable DoD standard recovery period, as detailed in the table contained in Policy Change 2, "DoD Recovery Periods for Depreciable General PP&E Assets," of this issuance. As indicated in the table, improvements to fences, roads, bridges, sewers, and other utilities shall be depreciated over 10 years, and improvements to buildings and other structures shall be depreciated over 20 years.
- b. Improvements to Personal Property. Improvements to General PP&E personal property that increase an asset's capacity, size, efficiency, or useful life, when the costs equal or exceed the DoD capitalization threshold, shall be individually recorded (capitalized) within personal property systems and depreciated over the applicable DoD standard recovery period, as detailed in the table contained in Policy Change 2, "DoD Recovery Periods for Depreciable General PP&E Assets." As indicated in the table, improvements to personal property shall be depreciated over 5 years.
- c. Maintenance and Repair. Maintenance and repair costs are not considered capitalized improvements, regardless of whether the costs equal or exceed the DoD capitalization threshold. Maintenance and repair costs associated with personal property (contracts for equipment and software for example) shall be expensed. When repairing a facility, the components of the facility may be repaired by replacement, and the replacement can involve upgrading to current standards and codes. For example, a roof can be repaired by replacement, using a better quality and longer life shingle that meets current building codes.
- d. Per Unit Costs. The cost of improvements to more than one General PP&E asset, when performed under a single contract or work order and that cannot be specifically identified by asset, shall be capitalized only if the allocated cost per General PP&E asset equals or exceeds the DoD capitalization threshold.

- (1) For example, assume a contractor is paid \$200,000 under one contract to replace the air conditioning units in 10 buildings with more efficient air conditioning units. Since the cost per building is \$20,000, and \$20,000 is below the DoD capitalization threshold, the amount is not capitalized. Even though an improvement was made, the DoD capitalization threshold was not met. However, if the same amount (\$200,000) were paid for two buildings, the amount would be capitalized because the capitalization threshold would have been met. In this example, \$100,000 would be recorded against each building.
- (2) When more than one improvement is made to a single building, facility or structure, and the improvements are part of one overall effort to increase the facility's capacity, size or useful life, the sum of the costs of the improvements shall be capitalized. This is so even though the efforts may be funded separately. For example, assume three separate contracts are obtained to improve a building. One contract modifies the exterior of the building for \$90,000, the second contract modifies the interior of the facility for \$200,000 and a third contract replaces the heating and air conditioning system for \$35,000. The sum of three improvements (\$325,000) is capitalized since the three individual projects are part of a single effort to improve the building.

Implementation Date. The revised policy for improvements is applicable to all General PP&E assets improved after August 1, 1999. The DoD Components shall not adjust the depreciation schedules of assets that have been previously improved.

Note: See paragraph (c) of enclosure (1) for DON guidance on implementation date.

**DEPARTMENT OF DEFENSE  
GENERAL PROPERTY, PLANT AND EQUIPMENT (PP&E)  
POLICY ON DEPRECIATION RECOVERY PERIODS**

Policy Change 4. The Department of Defense (DoD) accounting policy for depreciation is being revised to permit the depreciation of General Property, Plant and Equipment (PP&E) assets over a recovery period of less than 5 years. This change is consistent with the Federal Accounting Standards Advisory Board's SFFAS-No. 6, "Accounting for Property, Plant, and Equipment." In addition, the DoD Standard Recovery Periods Table is being revised to clarify the types of property that apply to each recovery period.

Current Policy. For purposes of computing depreciation on General PP&E, the DoD Standard Recovery Periods Table, as previously issued, prescribes recovery periods of 5, 10, 20, and 40 years, and does not permit depreciation over a period of less than 5 years.

Revised Policy. If a DoD Component determines that a General PP&E asset, when acquired, meets the DoD capitalization threshold and has a useful life of at least 2 years, but less than 5 years, the Component can elect to depreciate the asset over a recovery period that reflects its useful life (2-4 years). The DoD Component making this election must document the basis for that decision and cannot change the recovery period once depreciation has commenced. It is expected that few types of General PP&E, other than software, will be depreciated over less than 5 years. The revised DoD Standard Recovery Periods Table is on page 2 of this attachment.

Any requests for a deviation from the DoD Standard Recovery Periods Table must be submitted to the Office of the Under Secretary of Defense (Comptroller) for approval. Such requests must be specific to a class or type of asset and must be supported by information that indicates a life expectancy significantly different than that allowed for in this policy. Previously approved exceptions are not affected by the revised policy.

Implementation Guidance. The revised DoD Standard Recovery Periods Table is applicable to all General PP&E assets acquired after August 1, 1999. For Working Capital Fund Activities, this policy shall be effective for all General PP&E assets acquired on or after October 1, 2000. The DoD Components shall not attempt to adjust the depreciation schedules of assets currently on-hand.

**DoD STANDARD RECOVERY PERIODS  
FOR DEPRECIATING GENERAL PP&E**

Description of General PP&E Assets	Recovery Period
General Purpose Vehicles (Includes Heavy Duty Trucks & Buses), ADP Systems and Hardware (Computers and Peripherals), High-Tech Medical Equipment, Equipment Used in RDT&E, Radio and Television Broadcasting Equipment, and Software**  Improvements to personal property (equipment and machinery)	5 Years*
All Other Equipment and Machinery, and Software**  Improvements to Fences, Roads, Bridges, Sewers and other Utilities, Ship and Railroad Wharves and Docks, Dry Docks, Fuel Storage Facilities, etc.	10 Years
Vessels, Tugs, Barges, and Other Similar Water Transportation Equipment (non-National Defense PP&E vessels/ships)  Steam (12.5K pounds per hour or more) and Electric Generation (500 Kilowatt or more) Equipment and Other Utilities  Fences, Roads, Bridges, Sewers and Other Utilities, Ship and Railroad Wharves and Docks, Dry Docks, Fuel Storage Facilities, etc.  Improvements to Buildings, Hangars, Warehouses, Air Traffic Control Towers, and Other Real Property Structures	20 Years
Buildings, Hangers, Warehouses, Air Traffic Control Towers, and Other Real Property Structures	40 Years
Improvements to Leased Buildings and Other Real Property	Remainder of Lease Period

\* A recovery period of less than 5 years is permitted, when the acquiring DoD Component is certain that the useful life of an asset is at least 2 years but less than 5 years. In such instances, the recovery period shall be the known useful life (2-4 years, as appropriate).

\*\* Depending on the nature of the software, it can be depreciated over a period of less than 5 years, 5 years or 10 years. The determining factor should be the actual estimated useful life of the software consistent with that used for planning the software's acquisition.

**DEPARTMENT OF DEFENSE  
POLICY FOR THE RECOGNITION OF  
GENERAL PROPERTY, PLANT AND EQUIPMENT (PP&E)**

Policy Change 5.

**Recognition of General Property, Plant and Equipment (PP&E)**

**A. General**

1. All General PP&E assets acquired by the Department of Defense (DoD) must be recognized for accounting and reporting purposes. Recognition requires the proper accounting treatment (capitalization and depreciation) and the reporting of such capitalized amounts and accumulated depreciation on the appropriate DoD Component's financial statements. The DoD Component that procures a General PP&E asset, or the DoD Component in possession of a General PP&E asset, frequently, but not necessarily, will be the DoD Component that must account for and report the asset. The following guidance shall be used to determine which DoD Component is required to account for and report General PP&E assets.

2. In most instances, a General PP&E asset shall be recognized by the DoD Component acquiring the General PP&E asset.

a. Recognition shall occur when title passes to the acquiring DoD Component or when the asset is delivered to the DoD Component or to an agent of the DoD Component.

b. In the case of a constructed General PP&E asset, the cost to construct the asset shall be recorded as construction-in-progress until it is completed and placed in service; at that time, the balance in the construction-in-progress account shall be transferred to the appropriate General PP&E account.

c. For General PP&E assets acquired by a contractor on behalf of a DoD Component (e.g., the DoD Component will ultimately hold title to the assets), the assets shall be recognized upon delivery or constructive delivery, whether to the contractor for use in performing contract services or to the Department. Delivery or constructive delivery shall be based on the terms of the contract regarding shipping and/or delivery.

3. Defense Working Capital Fund (DWCF) activities are required to recognize and depreciate General PP&E assets in accordance with the guidance in this attachment without regard as to whether depreciation amounts for such assets are procured through the DWCF activities' Capital Purchase Program budgets or included in rates charged to customers. All General PP&E depreciation amounts shall be recognized as an expense on DWCF activities' annual Statement of Operations and Changes in Net Position, in accumulated depreciation amounts on the annual Statement of Financial Position, and in the monthly AR 1307 report.

4. To maintain PP&E accountability, when acquiring General PP&E from another DoD Component or federal agency, the acquiring DoD Component shall request, from the losing DoD Component or other federal agency, the necessary source documents to establish the location, size, original acquisition cost, cost of improvements, the date the asset was purchased, constructed, acquired, etc.

B. Treatment When the Predominant User of an Asset Is Not the Title Holder or DoD Component that Financed the Asset. Legal ownership (i.e., having title to a General PP&E asset), usually, but not always, is the determinant factor in the federal sector when determining which DoD Component recognizes a particular General PP&E asset for accounting and reporting purposes, to include financial statements. In addition, how a real property asset was financed does not in itself determine what entity accounts for and reports a real property asset. For example, buildings used by a Military Department Working Capital Fund activity, may not be constructed or acquired using Working Capital Funds; however, such buildings generally should be capitalized and depreciated by the Working Capital Fund activity and reported on that Working Capital Fund activity's financial statements. Such accounting and reporting is required by the Military Department Working Capital Fund activity regardless of whether title to such buildings is passed to the local installation when construction is completed. When determining which DoD Component must recognize a General PP&E asset for accounting and reporting purposes, all three of the following criteria must be met by the recognizing DoD Component:

1. The General PP&E asset must embody a probable future benefit that will contribute to the DoD Component's operations. In applying this criterion, the concept of benefit has traditionally been referred to as "service capacity" (i.e., the ability of an asset to directly assist the DoD Component in achieving its mission). Service capacity has value because it is consumable or exchangeable for other benefits. For example, a building on a military installation used by a Defense agency provides space for its operations, allowing it to achieve its mission. The Defense agency also is responsible for assuring that the maximum benefit is always available, since it pays for utilities, maintenance and upkeep of the building. The exchangeability part of the benefit criterion (the ability to sell, trade or donate the property) need not be present for an item to qualify as an asset in the federal sector, if consumption of the item provides benefit to the DoD Component. The inability of the DoD Component to exchange the benefit for other benefits does not preclude the asset from meeting this criteria.

2. The DoD Component that reports the General PP&E asset must be able to obtain the benefit and control access to the benefit inherent in the asset. This criterion, control over the benefit, refers to an entity's ability to direct who derives the benefit, the timing of when the benefit is derived and under what conditions it is derived. Directing the use of the benefit has traditionally been based on (a) possession or (b) the ability to exert significant influence over the benefits; either of which is obtained through legal ownership or an agreement with the owner. In instances in which an entity maintains possession of property through agreements which provide for possession for as long as needed, without a termination date, and without reimbursement, such arrangements are generally considered as providing sufficient influence over the use of the property to satisfy the control criterion. Once termination occurs, however, as in the case of a base closing where an entity conducts operations, control no longer exists; hence, the property will no longer meet the control criterion for the asset.

3. The transaction or event giving a DoD Component the right to and control over the benefit of a General PP&E asset must have already occurred. This criterion is an agreement (express or implied) that allows a DoD Component to occupy/use the asset without reimbursement for as long as needed.

C. Facilities Occupied/Equipment Used by More Than One DoD Component. When more than one DoD Component occupies a Government owned facility or uses government equipment, the following criteria shall be used to determine which occupant/tenant/user should recognize and record the facility/equipment as a General PP&E asset in their property and financial records. The criteria shall be applied in descending order.

1. Occupant/tenant/user that can substantiate preponderant use (via direct labor hours, population, square footage, metered output, etc.).

2. Occupant/tenant/user that has exclusive responsibility for maintenance, repair, upkeep, and replacement of the asset.

D. OCONUS Facilities and Equipment

1. OCONUS facilities that are occupied, and equipment that is used, by DoD Components shall be recognized as General PP&E of the occupying/using DoD Component for accounting and financial reporting purposes, if such occupation/use meets all of the following criteria. If all of the criteria are not met, the asset shall not be recognized by the DoD Component.

a. The facilities are occupied/equipment is used without reimbursement to the host nation,

b. The DoD Component controls access to or use of the facility/equipment,

c. Use of the facility/equipment is for an unspecified length of time, and

d. The DoD Component maintains and repairs the facility/equipment.

2. Such OCONUS facilities/equipment include facilities/equipment that were confiscated during a military operation, facilities built/equipment procured with the funds of an international organization (e.g., NATO), and facilities that were built/equipment procured with the funds of the host country. That such facilities/equipment may be returned to the host nation or international organization when the DoD Component permanently leaves the facility/returns the equipment is not a relevant factor for purposes of accounting and financial statement reporting. Additionally, such facilities/equipment are not to be considered assets under a capital lease, unless a specific agreement with the host nation exists, and the agreement is the equivalent of an installment purchase and meets one of the criteria as specified in paragraph 070308 of Volume 4 of the "DoD Financial Management Regulation" for a capital lease.



3. The value of such OCONUS facilities/equipment shall be footnoted on the DoD Component's financial statements.

**E. Recognition Uncertainty**

1. It is important that the overall accounting records of the Federal Government are not duplicative and that the DoD Component responsible for an asset maintains accountability for that PP&E. In situations when doubt exists as to which DoD Component should recognize an asset, the DoD Components involved shall reach agreement with the other DoD Component(s) or federal agency as to which entity will recognize the PP&E.

2. If an agreement cannot be reached, the matter shall be referred to the Office of the Deputy Chief Financial Officer, OUSD(C), for resolution. Requests for resolution shall be accompanied by adequate supporting documentation to assist in resolution of the matter and be submitted through the Financial Management and Comptroller of the submitting Military Department or Defense agency.

**DEPARTMENT OF DEFENSE  
GENERAL PROPERTY, PLANT AND EQUIPMENT (PP&E)  
POLICY ON PREPONDERANT USE**

Policy Change 6. The Department of Defense (DoD) Preponderant Use Policy is being revised to add a fourth criterion to be used when determining when a DoD Component must recognize General Property, Plant and Equipment (PP&E) for accounting and financial statement reporting purposes. This new criterion utilizes materiality as a determining factor when the preponderant use of General PP&E requires recognition of the General PP&E for accounting and financial statement reporting purposes.

The Statement of Federal Financial Accounting Standards (SFFAS) No. 4, "Managerial Cost Accounting Standards," states that each entity's full cost should incorporate the full cost of goods and services that it receives from other entities. The DoD policy on preponderant use was originally developed to facilitate full costing as envisioned by the SFFAS No. 4. However, materiality, which is integral to applying the standard, was not considered in developing the current preponderant use policy. The SFFAS No. 4 states that the recognition of full cost is limited to material items that are significant to the receiving entity and form an integral or necessary part of the receiving entity's output. The standard further states that broad and general support services provided by an entity to all or most other entities should not be recognized unless such services form a vital and integral part of the operations or output of the receiving entity. To comply with the intent of the SFFAS No. 4, the DoD Preponderant Use Policy has been revised.

Current Policy. When the preponderant user of an asset is not the titleholder or the DoD Component that financed the asset, the preponderant user, and only the preponderant user, must report that asset for accounting and reporting purposes, if all three of the following criteria are met.

1. The General PP&E asset must embody a probable future benefit that will contribute to the DoD Component's operations. For example, a building on a military installation used by a Defense agency provides space for that agency's operations, allowing the Defense agency to achieve its mission.
2. The DoD Component that reports the General PP&E asset must be able to obtain the benefit and control access to the benefit inherent in the asset.
3. The transaction or event giving a DoD Component the right to, and control over, the benefit of a General PP&E asset must have already occurred.

Revised Policy. A fourth criterion has been added, which also must be met when determining which DoD Component must recognize a General PP&E asset for accounting and reporting purposes. This new criterion addresses materiality as a determining factor in the recognition of a

General PP&E asset owned by one DoD Component, but predominately used by another Component.

4. DoD Components shall only report predominately used General PP&E assets owned by other DoD Components when the cost of those assets, taken as a whole, are material to the predominant user Component's financial statements. Specific examples below illustrate how this policy should be implemented.
  - a. Military Departments – Non-Working Capital Fund. A Military Department generally shall not recognize and report facilities that they occupy on another Military Department's installation. For example, if the Air Force is a tenant on an Army installation, and the Air Force is the predominant user of a building(s) on that installation, the Army should report the buildings on the Army's financial statements--not the Air Force. This policy recognizes that the Military Departments routinely use each other's facilities in the normal course of carrying out their missions, and the net effect of this cross-use of facilities is not material to the Military Department's financial statements.
  - b. Defense Agencies – Non-Working Capital Fund. The Defense Agencies that produce financial statements and/or are included in the DoD Consolidated Financial Statements generally must recognize and report the facilities used in their operations. The facilities are material to the performance of their mission. Most facilities used by the Defense Agencies are owned by, or titled to, the Military Departments. These facilities are significant to the operation of the agencies, and form an integral or necessary part of their output. As such, these facilities are material to the Defense Agencies' financial statements and shall be reported on the financial statements of the Defense Agencies and excluded from the financial statements of the Military Departments.
  - c. Working Capital Funds.
    - (1) General. Facilities used by Working Capital Fund (WCF) activities, when the WCF activity is the preponderant user of those facilities (both those of the Military Departments and the Defense Agencies), should be reported and depreciated on the appropriate Military Department WCF financial statement.
    - (2) Preponderant Use and Improvements. The WCF activities funding capital improvements to facilities in which they are not the preponderant user, shall report and depreciate those improvements on their financial statements. For example, if the Defense Logistics Agency (DLA) occupies a facility with other Army activities, has the least square footage, and makes a capital improvement of \$250,000 to the facility, the Army should record the capital improvement in its property records, but the DLA should report and depreciate the improvement on its financial statements.

- d. **Medical Facilities and Equipment.** The preponderant use policy outlined above shall not apply to DoD medical activities. While most of the funding for medical activities is centralized through the Office of the Under Secretary of Defense (Health Affairs) (OUSD(HA)), the OUSD(HA) does not exercise command and control authority over those funds or the related medical activities. Hospitals, clinics, and other medical facilities typically are located on a military installation or otherwise are under the command and control of one of the Military Services. The essence of the medical mission of these facilities is to serve the personnel and families, working at or living near that installation. Therefore, the military installation is the preponderant user of the medical facility, and all related General PP&E shall be reported on the financial statements of the Military Department that owns the installation upon which a medical facility resides. This policy is applicable to General PP&E purchased with General Funds regardless of Department Fund Code (e.g., TI 21 or TI 97).

**Implementation Guidance.** The revised policy is effective August 1, 1999 and shall be used for the reporting of General PP&E in the FY 1999 financial statements. In order to facilitate the reporting required by paragraph 4.b. and 4.c., above, Military Departments in coordination with the individual Defense Agencies, must identify the General PP&E that should be reported by the Defense Agency. That information should be provided to both the applicable Defense Agency and the Defense Finance Accounting Service Indianapolis Center. It is a joint responsibility between the Military Departments and the Defense Agencies that no duplicate reporting of General PP&E occurs.

Note: See paragraph (f) of enclosure (1) for DON guidance on implementation date.